

## Internal Revenue Service, Treasury

## § 301.6316-3

personal services performed in the employ of any organization engaged in administering any program or activity pursuant to any such agreement or law;

(3) Are at least 70 percent of the entire amount of the grant or compensation; and

(4) Are treated as income from sources without the United States under the provisions of sections 861 to 864, inclusive, and §§ 1.861-1 to 1.864, inclusive, of this chapter (Income Tax Regulations).

### § 301.6316-2 Definitions.

For purposes of §§ 301.6316-1 to 301.6316-9, inclusive:

(a) The term *tax*, as used in §§ 301.6316-1, 301.6316-3, 301.6316-4, 301.6316-5, and 301.6316-6 means the income tax imposed for the taxable year by chapter 1 of the Internal Revenue Code of 1954, and as used in § 301.6316-7 means the Federal Insurance Contributions Act taxes imposed by chapter 21 of the Code (or by the corresponding provisions of the Internal Revenue Code of 1939). The term "tax", as used in §§ 301.6316-3 and 301.6316-9 shall relate to either of such taxes, whichever is appropriate.

(b) The term *nonconvertible foreign currency* means currency of the government of a foreign country which, owing to (1) monetary, exchange, or other restrictions imposed by the foreign country, (2) an agreement entered into with the United States of America, or (3) the terms and conditions of the U.S. Government grant, is not convertible into U.S. dollars or into other money which is convertible into U.S. dollars. The term shall not, however, include currency which, notwithstanding such restrictions, agreement, terms, or conditions, is in fact converted into U.S. dollars or into property which is readily disposable for U.S. dollars.

(c) If the taxpayer computes taxable income under the accrual method, then the term *received* shall be construed to mean "accrued."

### § 301.6316-3 Allocation of tax attributable to foreign currency.

(a) *Adjusted gross income ratio.* The portion of the tax which is attributable to amounts received in nonconvertible

foreign currency shall, for purposes of applying § 301.6316-1 to the currency of each foreign country, be the amount by which:

(1) The amount which bears the same ratio to the entire tax for the taxable year as (i) the taxpayer's adjusted gross income received in that currency bears to (ii) the adjusted gross income determined under section 62 by taking into account the entire gross income and all deductions allowable under that section without distinction as to amounts received in foreign currency, exceeds

(2) The total of the allowable credits against tax, and payments on account of tax, which are properly allocable to the amount of that currency included in gross income.

(b) *Example.* (1) For the calendar year 1955 Mr. Jones and his wife filed a joint return on which the adjusted gross income is as follows, after amounts received in foreign currency had been properly translated into United States dollars for tax computation purposes:

Fulbright grant received by Mr. Jones in nonconvertible foreign currency .....	\$8,000
Dividends received by Mr. Jones entitled to dividends-received credit .....	500
Compensation for personal services of Mrs. Jones ..	3,000
Net profit from business carried on by Mrs. Jones ...	2,500
<b>Total adjusted gross income .....</b>	<b>14,000</b>

(2) The following amounts are allowable as properly deductible from adjusted gross income, no determination being made as to whether or not any part of them is properly allocable to the Fulbright grant:

Deduction for personal exemptions .....	\$3,000
Charitable contributions .....	500
Interest expense .....	400
Taxes .....	300
<b>Total allowable deductions .....</b>	<b>4,200</b>

(3) For the taxable year the following amounts are allowable as credits against the tax, or as payments on account of the tax:

Foreign tax credit for foreign taxes paid on Fulbright grant .....	\$300.00
Dividends-received credit .....	20.00
Credit for income tax withheld upon compensation of Mrs. Jones .....	304.80
Payments of estimated tax (see § 301.6316-6(b)(2) for determination of amounts):	
U.S. dollars .....	\$426.32
Foreign currency .....	893.88
<b>Total allowable credits and payments .....</b>	<b>1,945.00</b>